

Court System

**For the Years Ended
June 30, 1998, and June 30, 1997**

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September 16, 1999

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable E. Riley Anderson

Chief Justice of the Supreme Court

Supreme Court Building

Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Court System for the years ended June 30, 1998, and June 30, 1997.

We conducted our audit in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Court System's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Court System is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The Court System's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Court System's management in a separate letter.

Sincerely,

John G. Morgan

Comptroller of the Treasury

JGM/klm

99/080

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

Court System

For the Years Ended June 30, 1998, and June 30, 1997

AUDIT SCOPE

We have audited the Court System for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of appellate court clerk revenue, federal drug court grants, contracting procedures for the Tennessee Court Information System, indigent defense payments, court reporters, revenue journal vouchers, disbursements, year-end cutoff, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

The Appellate Court Clerk's Billing and Cash-Receipting Controls Are Inadequate*

All steps of the appellate court cost billing process have to be completed manually because the computerized billing system was never modified to accommodate the specific needs of the Appellate Court Clerk's office. The manual process increases the possibility that cases may be billed late or not at all; also, delinquent receivables may go unnoticed. Procedures undertaken to collect delinquent court costs and to collect and report delinquent litigation taxes were inadequate. Cash-receipting weaknesses, including failure to write cash receipts and make timely deposits, were noted (page 6).

The Administrative Office of the Courts Did Not Provide Sufficient Guidance to Judges Who Received Federal Drug Court Grants

The Administrative Office of the Courts failed to provide guidance to judges on proper procedures for recording and accounting for federal grants. Several judges applied for and received grants from the U.S. Department of Justice for planning and implementation of drug courts; one judge deposited the grant money in a personal banking account (page 9).

The Administrative Office of the Courts Violated Contracting Procedures for the Tennessee Court Information System

The Administrative Office of the Courts signed contracts with several vendors to procure computer hardware and develop software programs for the Tennessee Court Information System project. However, the contracts were signed for the state only by the administrative director. By law all such contracts should be submitted to the Comptroller of the Treasury for approval (page 11).

* This finding is repeated from the prior audit.

ISSUE FOR LEGISLATIVE CONSIDERATION

County Funding of Certain State Judges' Offices and the Provision of Salary Supplements to Certain Employees

Currently, county governments provide varying levels of support to state judges; some counties make no provision for the operation of the judges' offices while others provide office space, office supplies, utilities, and reimbursement of certain travel expenses. In addition, some county governments provide salary supplements to individuals employed in certain judges' offices. These salary supplements are paid through the county's payroll system and these employees receive varying levels of county benefits; some employees have been allowed to participate in county insurance and retirement plans, while others have not.

The presence of both state and county funding sources increases the risk that the same expense item could be submitted for reimbursement to more than one funding source, whether intentionally or as a result of errors. The officials responsible for approving payments at the state and county levels do not have a mechanism to determine what expenses have also been paid by another funding source. The General Assembly should consider requiring any county funding of the state judges' offices, except for office space provided in county-owned facilities, to be remitted to the state and then paid through the state system (page 16).

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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**Audit Report
Court System
For the Years Ended June 30, 1998, and June 30, 1997**

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Court System

For the Years Ended June 30, 1998, and June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Court System. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Thirteen divisions are currently included within the Court System. The Administrative Office of the Courts (AOC) administers 12 of these divisions, and the state Board of Law Examiners administers its own expenditures.

Administrative Office of the Courts

The AOC works under the supervision and direction of the Chief Justice of the Supreme Court of Tennessee, assists the Chief Justice in the administration of the judicial branch of government, serves as secretary to the Judicial Council, and attends to other duties assigned by the Supreme Court or Chief Justice.

The AOC has the additional duty of administering the accounts of the judicial branch of government by preparing, approving, and submitting budget estimates of appropriations necessary for the maintenance and operation of the state judicial system. The administrative director also draws and approves all requisitions for payment of judicial expenditures and submits vouchers to the Department of Finance and Administration. Additionally, the administrative director has the authority, within budgetary limits, to provide minimum law libraries to trial court judges.

In the performance of these duties, the administrative director of the AOC administers the following judicial appropriation codes:

a. Appellate and Trial Courts

Salaries and benefits are provided for all appellate court judges, circuit court judges, criminal court judges, chancellors, law and equity judges, and special judges appointed by the Chief Justice as well as for the secretaries of these judges. The salaries and benefits for law clerks and certiorari attorneys employed by the appellate judges, the travel and office expenses for authorized judges, and the cost of law libraries for all appellate and trial judges are paid from this code.

b. Supreme Court Buildings

Funds for the operation, maintenance, and security of the Supreme Court Buildings in Nashville, Knoxville, and Jackson are disbursed through this code.

c. Child Support Referees

Funds are provided for hearings in child support cases to promote the timely fulfillment of parents' obligations to support their children.

d. Indigent Defendants' Counsel

This code provides payments to attorneys appointed to represent juveniles and adults who cannot afford attorneys in felony proceedings. The code also pays legal costs, including attorneys' fees, incurred by indigent patients during mental health hearings.

e. Civil Legal Representation

This code provides payments to agencies to represent defendants in civil matters. On May 18, 1995, the Tennessee General Assembly enacted Public Chapter 550, which amended Sections 16-3-803 and 67-4-1602, *Tennessee Code Annotated*, and thereby levied certain taxes on civil litigation and established a Civil Legal Representation of Indigents Fund for the purpose of providing legal representation of poor persons in civil matters. Pursuant to Rule 11, *Rules of the Supreme Court*, funds are distributed to eight Tennessee legal aid societies.

f. Verbatim Transcripts

This code provides salaries, benefits, travel costs, and miscellaneous expenses incurred by court reporters who provide trial transcripts for persons indicted for felonies.

g. Tennessee State Law Libraries

Law libraries are maintained in Nashville, Knoxville, and Jackson. Salaries and benefits for the law librarians and their assistants and funds to purchase the necessary books and materials to maintain the libraries are disbursed from this code.

h. Judicial Council and Conference

This code provides for travel and miscellaneous expenses incurred in connection with the annual Judicial Conference mandated by statute; the two judicial seminars for continuing legal education scheduled each year; and the Judicial Council, whose members study and make recommendations to the Governor concerning the state judicial system.

i. Judicial Committees

This code provides for the travel expenses of the three members of the Committee on Uniform Laws and the state's annual dues to the National Conference of Commissioners on Uniform Laws. Travel expenses for members of the Judicial Selection Committee and the Judicial Standards Commission are also provided.

j. State Court Clerk Conference

This code provides for the travel and supplies expenses incurred in connection with the State Court Clerk Conference mandated by statute. At least one annual educational conference is required to be held. The membership of the conference includes all circuit court clerks, clerks and masters, elected probate clerks, criminal court clerks, juvenile court clerks, and elected general sessions court clerks in the state. Deputies of these clerks are associate members of the conference.

k. Administrative Office of the Courts

The salaries and operating expenses of the Administrative Office of the Courts are disbursed through this code. The Administrative Director is the administrative officer responsible for the day-to-day operations and the administrative details of the courts.

An organization chart of the Administrative Office of the Courts is on the following page.

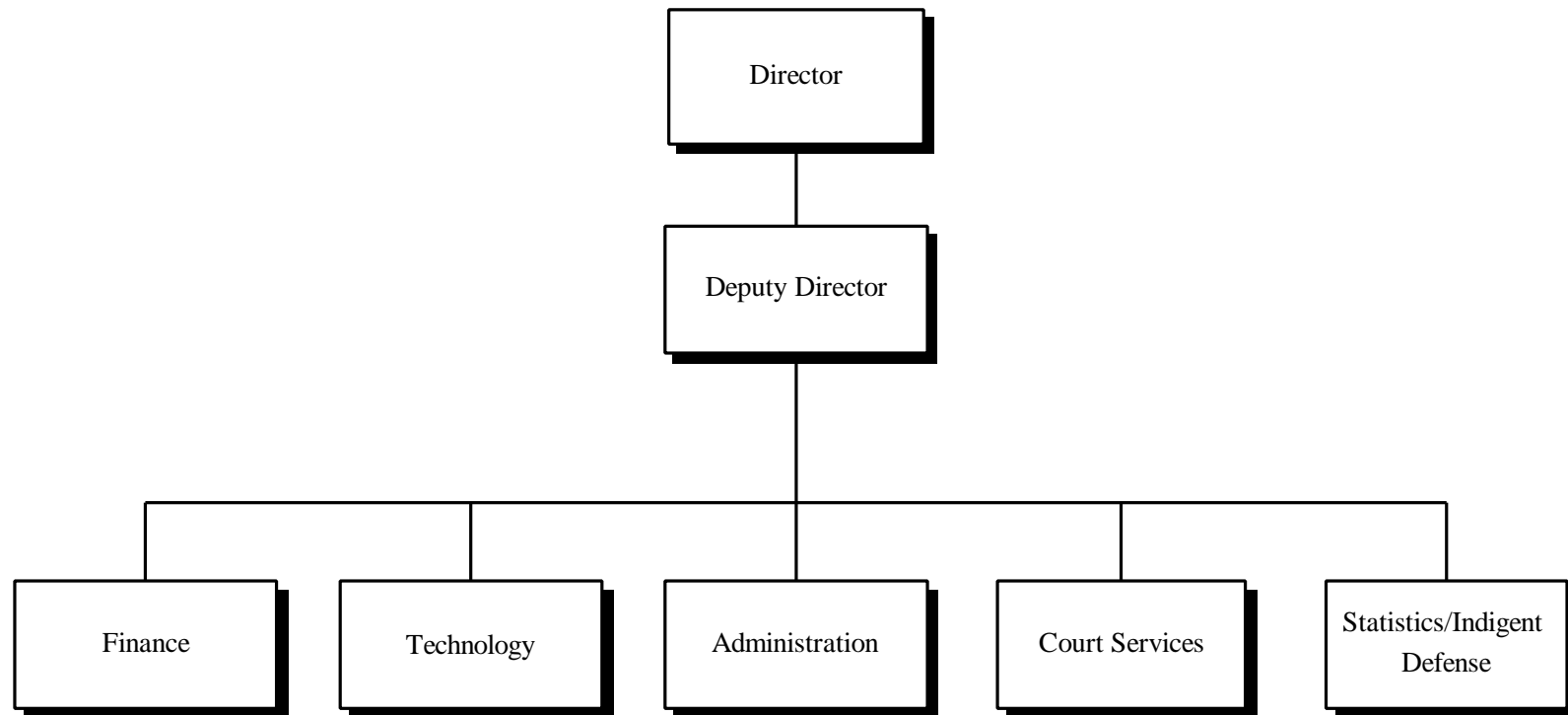
l. Appellate Court Clerks

The offices of the clerks are in Nashville, Knoxville, and Jackson. Each office consists of the deputy clerk and assistants. The salaries of the deputy clerks and assistants are paid from fees collected by the clerk, as prescribed by Section 8-22-302, *Tennessee Code Annotated*. Salaries of certain office personnel and general operating expenses are paid from funds appropriated to the clerks.

State Board of Law Examiners

The State Board of Law Examiners is not administered by the Administrative Office of the Courts; it is responsible for administering its own expenditures.

ADMINISTRATIVE OFFICE OF THE COURTS



The State Board of Law Examiners consists of three members of the state bar who are appointed by the Supreme Court and serve staggered terms of three years. In addition, the board employs an executive secretary and necessary assistants as required by Rule 37 of the Supreme Court. The executive secretary performs various administrative duties, keeps account of all fees paid to the board, records all examinations, and otherwise assists the board in the performance of its official duties. Board assistants are attorneys who are selected to help grade examination papers.

AUDIT SCOPE

We have audited the Court System for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of appellate court clerk revenue, federal drug court grants, contracting procedures for the Tennessee Court Information System, indigent defense payments, court reporters, revenue journal vouchers, disbursements, year-end cutoff, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

APPELLATE COURT CLERK REVENUE

Our objectives in reviewing the operations of the state's three divisional offices of the Appellate Court Clerk were to follow up on a past finding and determine whether

- physical controls over cash are adequate,
- procedures and controls over cash receipting are adequate and being followed, and
- procedures and controls over the billing and collection of court costs are adequate and being followed.

We interviewed key personnel at the three deputy appellate court clerks' offices to gain an understanding of the billing system used and the controls over billing and cash receipting. We reviewed a sample of receipts to determine if amounts deposited agreed with the amounts billed and if receipts were deposited timely and were coded correctly. We also reviewed billing records to determine if procedures for collecting delinquent court cost receivables and litigation taxes

were adequate. We found that these offices do not have adequate controls over billing, collection, and cash receipting and are not following established policies. In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

1. The Appellate Court Clerk's billing and cash-receipting controls are inadequate

Finding

As noted during the prior audit, the Appellate Court Clerk's controls over billing and cash receipting are inadequate at all three of the Appellate Court Clerk's offices. Although the Administrative Office of the Courts has promulgated cash-receipting policies for the three divisional offices, these policies are not being followed.

The offices receive the majority of their revenue from billings of court costs associated with the Supreme Court, Court of Criminal Appeals, and Court of Appeals. Additional revenue is also earned by providing copies of opinions to individuals or publishing companies and by issuing attorneys' certificates of good standing and enrollment.

In response to the finding in the prior audit report, management stated:

In May of 1997, a new department within the Division of Finance and Personnel was created titled the Appellate Court Cost Center. Composed of a manager and two account technicians, its function is to calculate and invoice costs generated by Appellate Court cases and receive, deposit and maintain financial records relative to these costs. These duties were previously handled by the three divisional offices of the Appellate Court Clerk. As a result of centralizing these procedures, costs are billed promptly and receivables are tracked and aggressively pursued according to guidelines established, including assessment of interest and penalties for late payment.

However, the following weaknesses were noted:

- a. The billing system used by all three Appellate Court Clerk offices does not appear adequate. The AOC established the new department; in May 1997, it took over most of the duties previously handled by the three divisional offices of the Appellate Court Clerk. The new department is billing current costs promptly and tracking and pursuing delinquent receivables according to the guidelines established. However, although a computerized billing and case-management system is in place, all steps of the billing process have to be done manually because the billing system was never modified to accommodate the specific needs of the Appellate Court Clerk's office. The manual processes include determining which cases are ready to bill, preparing cost bills, posting payments received, and determining delinquent receivables. The intensely manual process increases the possibility that cases may be billed late or not at all. Additionally, delinquent receivables may go unnoticed.

- b. The three deputy appellate court clerks' offices are responsible for collecting their own delinquent court costs that existed prior to the May 1997 creation of the new billing department. However, the Eastern Division has not adequately pursued these delinquent court costs. The chief deputy clerk for this division has not taken the time to do the billing.
- c. Section 67-1-804, *Tennessee Code Annotated*, provides for a penalty of 5% of the unpaid litigation tax for each 30 days or fraction thereof to a maximum of 25% for each delinquency, or a minimum penalty of \$15. The deputy court clerks' offices in the Eastern and Western divisions were not assessing and collecting the required penalties and interest on overdue litigation taxes incurred prior to May 1997 if partial payments were being received. The new billing department adds and collects the \$15 penalty on unpaid litigation tax cases arising since May 1997 but does not collect the penalty on a percentage basis. Management anticipates the clerk's new computer system will calculate and assess the percentage-based penalty when the receivable is 45 days past due; however, at this time it is uncertain when that system will be on-line.
- d. In the Eastern division, cash receipts are not written immediately for cash received through the mail or over the counter for the payment of court costs. Management's response to the prior audit finding stated,

Written guidelines for receiving and depositing these funds have been provided to each clerk's office. The AOC will continue to monitor and address issues as they arise to ascertain compliance with these guidelines.

An examination of cash items received during the period April 1, 1998, through June 30, 1998, showed that 41 of 89 items (46.07%) were not recorded in the cash receipts book. Neither did this division have adequate controls over the use of cash receipt books: some receipts were missing from the cash receipt books, and the sequence of receipt numbers is not periodically accounted for when the deposits are prepared. The AOC has not monitored the court clerk's offices as stated in management's response to the prior audit finding.

- e. AOC procedures require deposits to be made daily. Although management's response to the prior audit stated, "Written guidelines for receiving and depositing ... have been provided to each clerk's office," two of the three divisions did not deposit their receipts in a timely manner. Eleven of 23 receipts tested (47.8%) in the Eastern Division were deposited one to 11 days late, and 12 of 23 receipts tested (52.17%) in the Middle Division were deposited one to 5 days late. Per Section 9-4-301, *Tennessee Code Annotated*,

It is the duty of every department, institution, office and agency of the state and every officer and employee of state government,

including the state treasurer, collecting or receiving state funds, to deposit them immediately into the treasury or to the account of the state treasurer in a bank designated as a state depository or to the appropriate departmental account if authorized by Section 9-4-302.

Policy 25 of the Department of Finance and Administration defines “immediately” to mean the same day.

- f. The Middle Division’s procedures for billing publishing companies for copies of court opinions are inadequate. These billings are typically prepared every two or three months; however, they should be prepared at least monthly.

Recommendation

The Appellate Court Clerk should implement an effective automated billing system, which—at a minimum—automatically identifies those cases ready to be billed, prepares cost bills, posts payments received, and determines delinquent receivables. The deputy appellate court clerks should assign specific responsibility to ensure that all revenues are properly billed and promptly deposited when received. More reviews should be implemented by management to ensure its policies and procedures are followed: cash items are immediately recorded in the cash receipts book, receipts are promptly and properly accounted for, all state funds are deposited timely in accordance with state law, assets are adequately safeguarded, and all receivables are promptly collected using any necessary enforcement action. Allowable penalties and interest for delinquent litigation taxes should be collected.

Management’s Comment

We concur. This audit covered the period ending June 30, 1998. The operations of the Clerks office did improve for this audit period, but have shown more improvement over the last 12 months following the audit period. A new automated system will be in place by year end and will remedy most of the inadequacies noted in this audit. More extensive daily review will be implemented to ensure that proper receipting policies and procedures are followed.

ACCOUNTING FOR FEDERAL DRUG COURT GRANTS

Our objectives in reviewing grants from the U.S. Department of Justice for drug court planning and implementation included determining whether

- the grants were properly recorded and accounted for in public funds of the state or local governments, and
- the AOC had made all state judges aware of the proper procedures to follow in accounting for federal grants.

We interviewed key personnel to obtain an understanding of controls over recording the deposit and accounting for expenditures of these federal grant funds. We examined the grant documents to determine the actual grantee. We inquired of county governments to determine if the grants were entered into and accounted for on county books. We found two of the three grants we reviewed were properly entered on county books, but proceeds of the third were deposited into the personal bank account of a judge.

2. The Administrative Office of the Courts did not provide sufficient guidance to judges who received federal drug court grants

Finding

The Administrative Office of the Courts (AOC) failed to provide judges with proper procedures for recording and accounting for federal grants. Several state judges applied for and received grant money directly from the U.S. Department of Justice for drug court planning initiatives and/or drug court implementation initiatives. In one instance, the judge deposited these funds in a personal bank account. Even though the deposits were made to a personal bank account, there was no evidence that the funds were spent inappropriately. The other two grants were deposited in accounts controlled by counties, where the grants were added to the county budgets and the expenditures were accounted for by the county.

The following grants were received:

- Montgomery County - \$18,500 for the grant period April 1997 through June 1999;
- Rutherford County - \$38,400 for the grant period August 1998 through November 1999; and
- Knox County - \$397,000 for the grant period August 1998 through May 2000.

The AOC was unaware the judges had applied for and received these grants. When the AOC was informed, the office took prompt action to rectify the situation by determining if the grant money was in proper public accounts, assuring complete records of expenditures would be kept, and informing all state judges of the correct procedures to follow in the future.

All grant money awarded to the state or a state official on behalf of the state must be deposited with and accounted for as public funds of the state. If the funds are awarded on behalf of the county government, the funds should be accounted for on the county records. No funds of this nature should ever be deposited into a personal bank account.

Recommendation

The Administrative Office of the Courts should formally instruct all judges concerning how federal grants are to be handled, ensure that all federal grants are deposited in public accounts, entered on the state or a county accounting system, and—for all grants not initially entered on public books—account for all such grant money received and expended prior to entering the grants on the state or local accounting system. If the grants are recorded on the state system, the AOC should follow Finance and Administration Policy 20 for grant accounting, and these federal funds should be shown on the State of Tennessee’s Schedule of Expenditures of Federal Awards.

Management’s Comment

We concur. In order to instruct state judges concerning the handling of federal grants, the Director of the AOC met with the entire Tennessee Judicial Conference at the June 1999 annual meeting. The Director explained that all federal monies must be properly accounted for through appropriate governmental agencies. A follow up letter was sent to all judges in July notifying judges to contact the AOC if federal funds had been secured or allotted to them. The AOC will continue to monitor the drug grants flowing into the State.

CONTRACTING FOR THE TENNESSEE COURT INFORMATION SYSTEM

The Legislature mandated a statewide court information system and case management system. The administrative director of AOC entered into contracts with several vendors to plan the Tennessee Court Information System (TnCIS), provide computer hardware, and develop software programs—both for counties that had no computer system and for those that had existing systems—in an effort to make all systems compatible and more efficient than those currently in use.

In January 1999, the Department of Finance and Administration’s Office for Information Resources and the Comptroller of the Treasury’s Division of County Audit jointly issued a report that covered the history of the TnCIS project, the contracts, the appropriations made by the Legislature, the current status, and the likelihood of success.

Our objective was to determine whether contracting procedures for this project were in accordance with state law.

We interviewed key personnel and reviewed the joint report, the contracts, and applicable laws. We found the AOC had not submitted any of the contracts for proper approval.

3. The Administrative Office of the Courts violated state contracting procedures for the Tennessee Court Information System

Finding

The Administrative Office of the Courts (AOC) did not follow prescribed state procedures in contracting for services to develop the Tennessee Court Information System (TnCIS). Per Section 16-3-803(h), *Tennessee Code Annotated*, TnCIS was to provide a system that would be consistent throughout the state:

The administrative director of the courts shall establish criteria, develop procedures, and implement a statewide court system information and case management information system.

In compliance with this law, the administrative director of the AOC negotiated contracts with several vendors to develop TnCIS. However, the AOC violated contracting procedures by failing to have these contracts approved by the Comptroller of the Treasury. Section 10, Item 2, of the annual appropriation bill states,

Any personal services, professional services or consultant services contracts concerning management service of all types, management studies, planning services, public relations, evaluations, systems designs, data processing, auditing or accounting services entered into by an executive department or agency of state government shall be executed by the head of such department or agency and shall be subject to approval by the Commissioner of Finance and Administration and the Comptroller of the Treasury. No funds appropriated under this act to a department or agency shall be used for such contracts unless such approval is received or is otherwise authorized by the approving officials. Any such contract entered into by agencies of the legislative or judicial branches shall be subject to the approval of the Comptroller of the Treasury.

Additionally, *Tennessee Code Annotated*, 16-3-803(e) states,

All functions performed by the administrative director of the courts which involve expenditures of state funds shall be subject to the same auditing procedures by the commissioner of finance and administration and the comptroller of the treasury as required in connection with the expenditure of all other state funds.

A January 1999 report prepared jointly by the Department of Finance and Administration's Office for Information Resources and the Comptroller of the Treasury's Division of County Audit discussed various problems with the TnCIS project, including contracts that worked to the disadvantage of the Court System and failed to provide viable solutions to AOC information system needs.

The AOC entered into six agreements with several vendors for the development of the TnCIS project. The contracts included various goods and services:

- systems integration, court software, and additional consulting services—the project expenditures totaled \$288,212.00 through October 1997;
- a software program for three pilot locations, including sub-license agreement, software maintenance and support, plus optional professional services—the project expenditures totaled \$2,420,468.08 through March 1999;
- a training instructor for on-site training on a case management system—the expenditures totaled \$5,000 through December 1996;
- computer hardware, software, and related services—the amount of TnCIS expenditures for these items could not be separated from normal operating expenditures;
- hardware, software, and related services—the amount of TnCIS expenditures for these items could not be separated from normal operating expenditures; and
- implementation and development of TnCIS software as well as the transfer from existing to new systems at multiple locations; also site evaluations, equipment installation, training of personnel, and long-term hardware and software support—the project expenditures totaled \$1,104,677.63 through June 1999.

The administrative director signed all of these agreements for the Administrative Office of the Courts; a representative of each vendor also signed. The AOC did not submit the agreements to the Comptroller of the Treasury for approval as required.

The administrative director acted without authority in signing contracts and agreements without obtaining approval specified by state law. Had these contracts been submitted through the proper channels for approval, it is possible some of the problems cited in the January 1999 report might have been foreseen and avoided.

Recommendation

The Administrative Office of the Courts should ensure that all contracts and agreements as described by state law are submitted to the Comptroller of the Treasury for approval. In addition, all contracts should be reviewed to ensure that all provisions meet the requirements of the AOC and provide solutions to their information system needs.

Management's Comment

We concur. Contracting procedures are being revised to assure that all contracts include standard state language and are routed to the Office of the Comptroller of the Treasury for review.

INDIGENT DEFENSE PAYMENTS

Our objectives in reviewing and testing indigent defense payments were to follow up on a past finding and to determine whether

- the Administrative Office of the Courts (AOC) had implemented sufficient controls to prevent and detect billing irregularities—such as billings for more than 8 hours in court or more than 12 hours of service in a single day—by private attorneys appointed to represent indigent defendants, and
- billings for indigent defense legal work are reasonable and are not duplicate submissions.

We reviewed a sample of billings for indigents' defense attorneys and performed a computer-assisted analysis of these billings to determine if the total hours billed each day appeared reasonable. We analyzed the attorney billing analysis database prepared by the AOC for invalid dates and other inaccurate information. We also interviewed key personnel to gain an understanding of the AOC's controls over the payment of indigents' defense attorneys. We determined that the AOC improved its controls over payments to indigents' defense attorneys, and found no apparent overpayments to attorneys. We had no findings related to indigent defense payments; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

COURT REPORTERS

The Administrative Office of the Courts pays official court reporters to prepare verbatim transcripts of criminal cases pursuant to court order. If such a state employee is not available, private court reporters may be hired to record court proceedings. A verbatim transcript is the official court record or transcript of a court proceeding. Judges typically order a verbatim transcript to be prepared when an appeal is filed. The Administrative Office of the Courts bears the cost of the verbatim transcript if the appellant is declared indigent by the court, pursuant to Section 40-14-312, *Tennessee Code Annotated*.

Our objectives in reviewing payment procedures for verbatim transcripts were to follow up on a past finding and determine whether billings for verbatim transcripts and per diem charges were

- accurate,
- paid in accordance with applicable policy,
- and supported by official court records.

We reviewed a sample of billings for verbatim transcripts to determine if the billings were mathematically accurate, authorized and approved by all the necessary parties, supported by court records, and paid in accordance with established rates. We reviewed a sample of per diem payments to private court reporters to determine if they were properly approved, and we analyzed the payments to private and official court reporters for unusual trends. We also interviewed key personnel to gain an understanding of the AOC's controls over payments for verbatim transcripts. We determined that the AOC has adequate controls over the payments for verbatim transcripts and for the utilization of private court reporters. We had no findings related to indigent defense payments; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

REVENUE JOURNAL VOUCHERS

Our objectives in reviewing revenue journal vouchers were to follow up on a past finding and to determine if billings to other state agencies were initiated within the time constraints prescribed by Department of Finance and Administration Policy 18.

We interviewed key staff to gain an understanding of the procedures used to bill other state agencies for services rendered. Our work consisted of a review of a sample of billing journal vouchers to determine if the billings were prepared timely. We determined that the Administrative Office of the Courts is preparing billing journal vouchers in accordance with Policy 18. We had no findings related to revenue journal vouchers.

DISBURSEMENTS

Our objectives in reviewing disbursements included determining whether

- disbursements for goods and services are properly authorized, received, identified, and recorded;
- payments are made in a timely manner;
- reimbursement of expenses incurred by employees, including travel, is reasonable, adequately supported, and in accordance with policies; and
- procedures for monitoring cellular phone usage and long-distance usage are adequate.

We interviewed key personnel to obtain an understanding of the controls concerning payments to employees for reimbursement of business expenses. We analyzed payments to employees for unusual trends, and we reviewed employee claims for reimbursement for expenses. We had no findings related to disbursements; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

YEAR-END CUTOFF

Our objectives were to follow up on a past finding and to determine whether the Administrative Office of the Courts had sufficient controls and procedures to ensure an accurate cutoff at fiscal year-end. We interviewed key personnel in order to gain an understanding of the office's procedures and controls related to year-end cutoff for financial reporting purposes. Our work consisted of reviewing July 1998 disbursements to determine if the invoices had been paid in the correct fiscal year. We determined the AOC has improved controls and procedures to pay invoices in the correct fiscal year. We had no findings related to year-end cutoff; however, a minor weakness came to our attention which has been reported to management in a separate letter.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our objective was to follow up on a past finding; our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end, using an authorized redistribution method;
- the Court System made drawdowns, at least weekly, using the applicable STARS reports; and
- the Court System utilized the appropriate STARS reports as bases for preparing the Schedules of Expenditures of Federal Awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. We found that the AOC is now using the STARS Grant Module for the State Court Improvement Program, makes drawdowns at appropriate times, and uses STARS reports for the preparation of the Schedule of Expenditures of Federal Awards. We had no findings related to Policy 20; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Court System filed its report with the Department of Audit on July 31, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Court System has corrected previous audit findings concerning indigent defense payments, verbatim transcripts, rental arrangements for judges' offices, Finance and Administration Policy 20, revenue journal vouchers, and year-end cutoff.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning appellate court clerks' billing and cash-receipting. This finding has not been resolved and is repeated in the applicable section of this report.

ISSUE FOR LEGISLATIVE CONSIDERATION

COUNTY FUNDING OF CERTAIN STATE JUDGES' OFFICES AND THE PROVISION OF SALARY SUPPLEMENTS TO CERTAIN EMPLOYEES

Currently, county governments provide varying levels of support to state judges; some counties make no provision for the operation of the judges' offices while others provide office space, office supplies, utilities, and reimbursement of certain travel expenses. In addition, some county governments provide salary supplements to individuals employed in certain judges' offices.

These salary supplements are paid through the county's payroll system and these employees receive varying levels of county benefits; some employees have been allowed to participate in county insurance and retirement plans, while others have not.

The presence of both state and county funding sources increases the risk that the same expense item could be submitted for reimbursement to more than one funding source, whether intentionally or as a result of errors. The officials responsible for approving payments at the state and county levels do not have a mechanism to determine what expenses have also been paid by another funding source. The General Assembly should consider requiring any county funding of the state judges' offices, except for office space provided in county-owned facilities, to be remitted to the state and then paid through the state system.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ended June 30, 1998, the Court System filed its compliance report and implementation plan on July 9, 1997, and for the year ended June 30, 1997, on April 4, 1997, nine months late.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

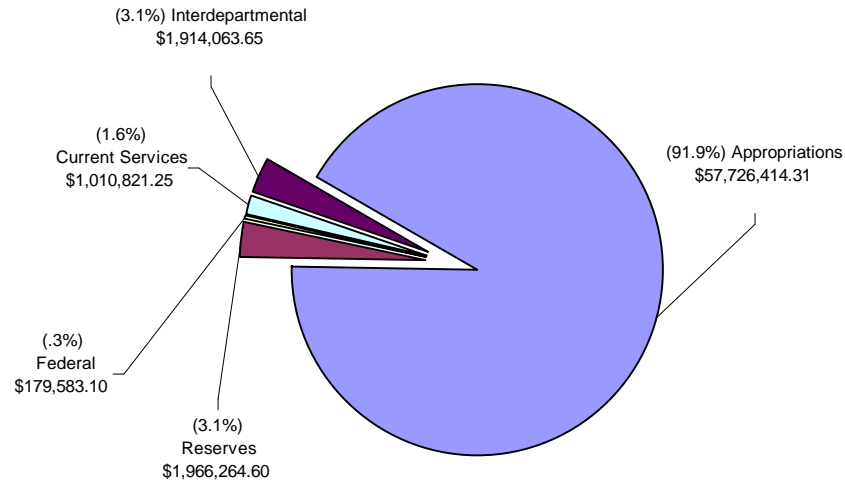
DIVISIONS AND ALLOTMENT CODES

Court System's divisions and allotment codes:

302.01	Appellate and Trial Courts
302.05	Supreme Court Buildings
302.08	Child Support Referees
302.10	Indigent Defendants' Counsel
302.11	Civil Legal Representation
302.12	Verbatim Transcripts
302.15	Tennessee State Law Libraries
302.18	Judicial Council and Conference
302.20	Judicial Committees
302.22	State Court Clerk Conference
302.27	Administrative Office of the Courts
302.30	Appellate Court Clerks
302.35	State Board of Law Examiners

Court System Funding Sources

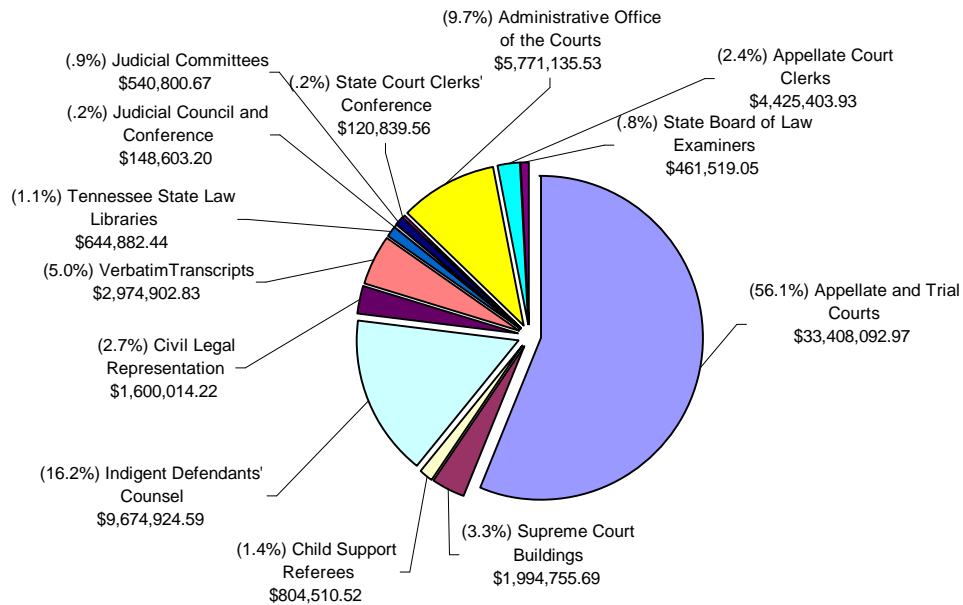
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Administrative Office of the Courts

Court System Expenditures by Allotment and Division

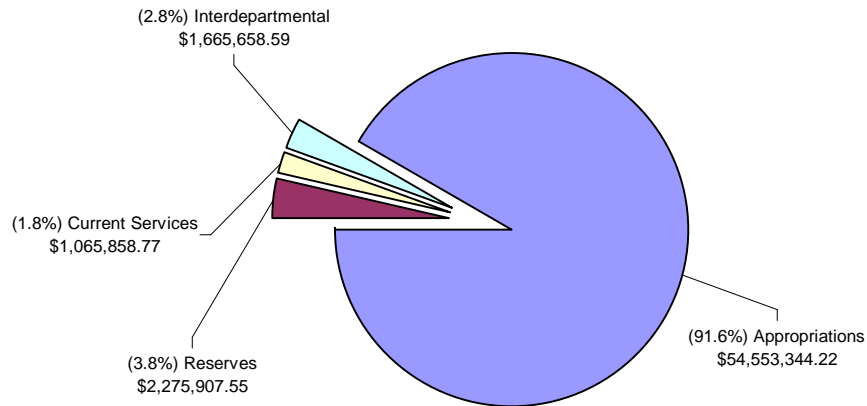
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Administrative Office of the Courts

Court System Funding Sources

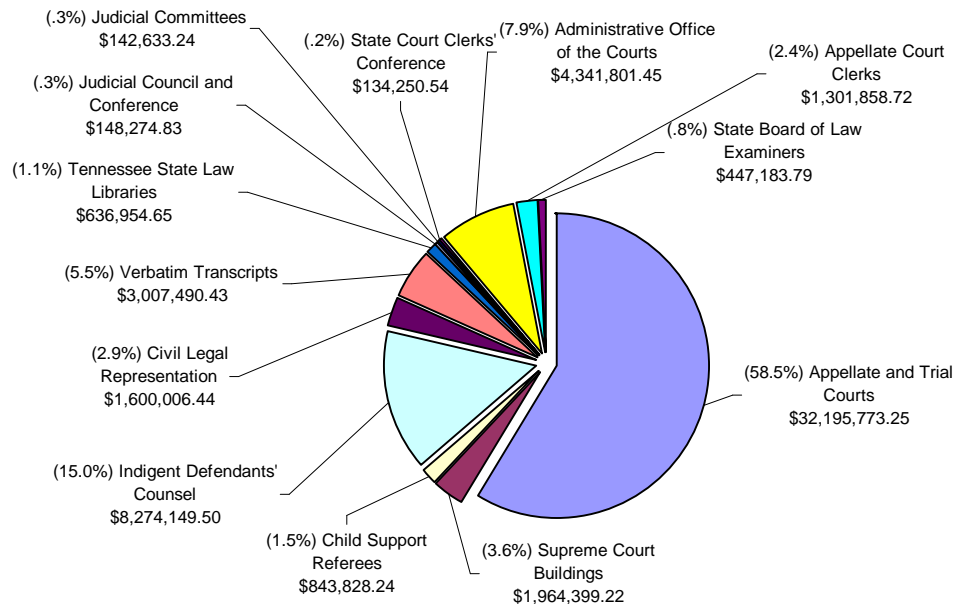
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Administrative Office of the Courts

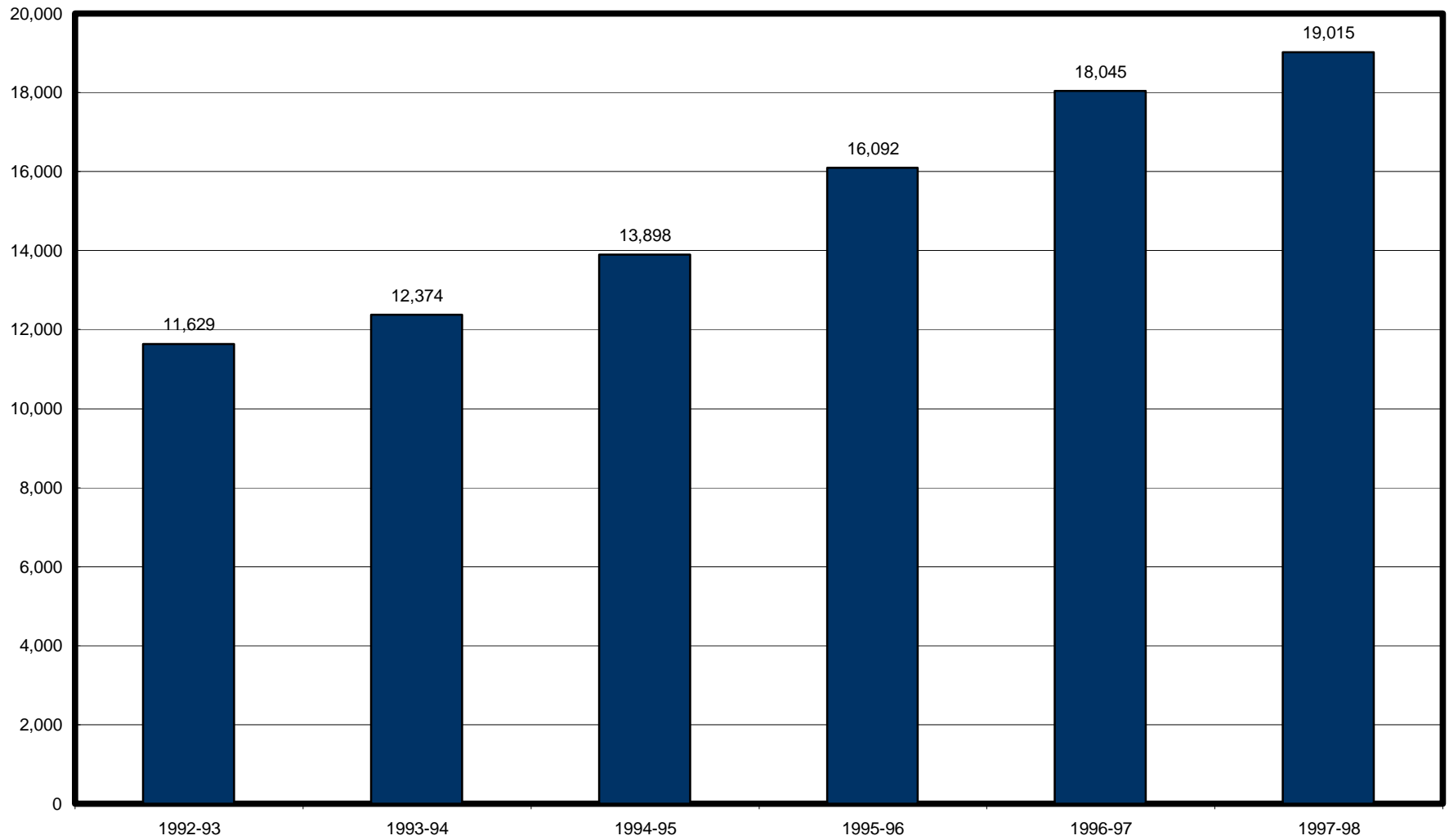
Court System Expenditures by Allotment and Division

Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Administrative Office of the Courts

Total Indigent Defense Claims Filed by Fiscal Year (Unaudited)



Source: Administrative Office of the Courts